ORGANOGENESIS INC.

CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	At December 31, 1998	At December 31, 1999
Assets		
Current assets:		
Cash and cash equivalents	$ 5,052	$ 5,727
Investments	12,789	6,712
Inventory	730	906
Receivable from related party	213	985
Other current assets	228	643
Total current assets	19,012	14,973
Property and equipment, net	7,605	11,731
Other assets	93	601
Total Assets	$ 26,710	$ 27,305
Liabilities		
Current liabilities:		
Accounts payable	$ 1,036	$ 1,378
Accrued expenses	2,435	3,438
Other current liabilities	--	996
Series C convertible preferred stock to be redeemed in cash	--	6,180
Total current liabilities	3,471	11,992
Long-term convertible debt	--	17,953
Term loan	--	4,334
Commitments (see Notes)		
Stockholders' Equity (Deficit)		
Preferred stock, par value $1.00; authorized 1,000,000 shares: Series C convertible preferred; designated 200 shares; 62 shares issued and outstanding at December 31, 1998	--	--
Common stock, par value $.01; authorized 80,000,000 shares: issued and outstanding 30,479,719 and 30,689,019 shares at December 31, 1998 and 1999, respectively	305	307
Additional paid-in capital	124,342	122,890
Accumulated deficit	(101,017)	(129,367)
Treasury stock at cost, 40,000 and 85,000 shares at December 31, 1998 and 1999, respectively	(391)	(804)
Total stockholders' equity (deficit)	23,239	(6,974)
Total Liabilities and Stockholders' Equity (Deficit)	$ 26,710	$ 27,305

The accompanying notes are an integral part of the consolidated financial statements.

ORGANOGENESIS INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except share data)

	For the Years Ended December 31, 1997	1998	1999
Revenues:			
Research and development support from related party	$ 2,500	$ 6,750	$ --
Product sales to related party and others	444	1,082	1,844
Other income	85	107	832
Interest income	502	1,058	902
Total Revenues	3,531	8,997	3,578
Cost and Expenses:			
Cost of product sales to related party and others	--	--	3,773
Research and development	13,854	17,542	18,166
General and administrative	3,929	5,486	7,808
Non-cash purchase of incomplete technology	--	--	900
Non-cash charge for stock option extension	5,555	--	--
Interest expense-net	--	--	1,281
Total Costs and Expenses	23,338	23,028	31,928
Net Loss	$ (19,807)	$ (14,031)	$ (28,350)
Net loss per common share - basic and diluted	$ (.70)	$ (.48)	$ (.93)
Weighted average number of common shares outstanding - basic and diluted	28,360,485	29,453,104	30,484,982

The accompanying notes are an integral part of the consolidated financial statements.

ORGANOGENESIS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	For the Years Ended December 31,		
	1997	1998	1999
Cash flows from operating activities:			
Net loss	$(19,807)	$(14,031)	$(28,350)
Adjustments to reconcile net loss to cash flows used in operating activities:			
Depreciation	1,658	1,474	1,741
Issuance of stock options and warrants to consultants	50	--	432
Non-cash charge for stock option extension	5,555	--	--
Amortization of warrants and deferred debt issuance costs relating to long-term convertible debt	--	--	338
Issuance of treasury stock for purchase of incomplete technology	--	--	900
Issuance of common stock for interest on convertible debt	--	--	705
Changes in assets and liabilities:			
Inventory	--	--	(176)
Other current assets and receivable from related party	(224)	(244)	(1,187)
Other assets	(4)	--	--
Accounts payable	(577)	393	342
Accrued expenses and other liabilities	(1,081)	849	1,605
Deferred rent payable	(43)	(28)	--
Cash used in operating activities	(14,473)	(11,587)	(23,650)
Cash flows from investing activities:			
Capital expenditures	(1,069)	(2,464)	(5,767)
Purchases of investments	(5,000)	(16,224)	(23,728)
Sales/maturities of investments	13,229	9,247	29,805
Cash provided by (used in) investing activities	7,160	(9,441)	310
Cash flows from financing activities:			
Proceeds from issuance of long-term convertible debt	--	--	20,000
Deferred debt issuance costs	--	--	(575)
Proceeds from issuance of term loan	--	--	4,728
Proceeds from sale of preferred stock - net	--	19,117	--
Proceeds from sale of common stock - net	--	6,000	--
Proceeds from exercise of warrants	4,571	--	--
Proceeds from exercise of stock options	2,676	1,021	813
Purchase of treasury stock	--	(391)	(951)
Cash provided by financing activities	7,247	25,747	24,015
Increase (decrease) in cash and cash equivalents	(66)	4,719	675
Cash and cash equivalents, beginning of year	399	333	5,052
Cash and cash equivalents, end of year	$ 333	$ 5,052	$ 5,727
Supplemental Disclosure of Cash Flow Information:			
Interest paid in cash during the year	$ --	$ --	$ 28

The accompanying notes are an integral part of the consolidated financial statements.

ORGANOGENESIS INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(In thousands)

For the years ended December 31, 1997, 1998 and 1999

	Series C Convertible Preferred Stock Shares	Series C Convertible Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock Shares	Treasury Stock Amount	Total Stockholders' Equity (Deficit)
Balance - 12/31/96	-	-	14,292	$143	$ 85,514	$(67,179)	-	$ -	$18,478
Issuance of common stock upon exercise of stock options and in connection with employee stock purchase plan			297	3	2,673				2,676
Issuance of common stock upon exercise of warrants			357	4	4,567				4,571
Two, one-for-four common stock dividends			8,214	82	(82)				
Issuance of stock options					50				50
Non-cash charge for stock Option extension					5,555				5,555
Net loss						(19,807)			(19,807)
Balance - 12/31/97	-	-	23,160	232	98,277	(86,986)	-	-	11,523
Issuance of common stock upon exercise of stock option and in connection with employee stock purchase plan			146	2	1,019				1,021
One-for-four common stock dividend			5,826	58	(58)				-
Sale of Series C preferred stock-net					19,117				19,117
Conversion of Series C preferred Stock			1,136	11	(11)				-
Sale of common stock to related party			212	2	5,998				6,000
Purchase of treasury stock							40	(391)	(391)
Net loss						(14,031)			(14,031)
Balance - 12/31/98	-	-	30,480	305	124,342	(101,017)	40	(391)	23,239
Issuance of common stock upon exercise of stock options and in connection with employee stock purchase plan			120	1	812				813
Issuance of warrants with Convertible debt					2,318				2,318
Series C convertible preferred stock to be redeemed in cash					(6,180)				(6,180)
Issuance of common stock for interest on convertible debt			89	1	704				705
Issuance of stock options and warrants to consultants					432				432
Purchase of incomplete technology					462		(50)	538	1,000
Purchase of treasury stock							95	(951)	(951)
Net loss						(28,350)			(28,350)
Balance - 12/31/99	-	-	30,689	$307	$122,890	$(129,367)	85	$(804)	$ (6,974)

The accompanying notes are an integral part of the consolidated financial statements.

ORGANOGENESIS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Nature of Business

Organogenesis Inc. - a tissue engineering firm - designs, develops and manufactures medical products containing living cells and/or natural connective tissue. We are the developer and manufacturer of the only mass-manufactured medical product containing living human cells marketed in the US. Our product development program includes living tissue replacements, cell-based organ assist devices and other tissue-engineered products. Our lead product, Apligraf(R) skin construct, was launched in the US in June 1998 by marketer Novartis Pharmaceuticals Corporation. Our strategy is to commercialize products either by ourselves or through partners with an established marketing presence.

Apligraf is approved and marketed in the US for the treatment of venous leg ulcers. In December 1999, Organogenesis applied to the FDA for marketing approval for a second indication - diabetic foot ulcers. Novartis Pharma AG has global Apligraf marketing rights. In fourth quarter 1999, Novartis began initial product introduction in Switzerland, the first of several planned in Europe. Novartis also markets Apligraf in Canada.

We have a wholly-owned subsidiary, ECM PharmaTM, Inc. ECM Pharma was established to discover, develop and commercialize human therapeutics based on the extracellular matrix. We also have a wholly-owned investment subsidiary, Dan Capital Corporation, which holds a substantial portion of our cash, cash equivalents and investments.

We are subject to risks common to entities in the biotechnology industry, including, but not limited to, the following uncertainties:

- Market acceptance of our products, if and when approved, and successful marketing and selling of Apligraf by Novartis;
- FDA approval of Apligraf for other indications and successful registrations of Apligraf outside the US;
- Risk of failure of clinical trials for future indications of Apligraf and other products;
- Compliance with FDA regulations and similar foreign regulatory bodies;
- Risk of manufacturing disruptions or production failures;
- Manufacture and sale of products in sufficient volume to realize a satisfactory margin;
- Continued availability of raw material for products;
- Availability of sufficient product liability insurance;
- Ability to recover the investment in property and equipment;
- Protection of proprietary technology through patents;
- Development by competitors of new technologies or products that are more effective than ours;
- Adequate third-party reimbursement for products;
- Dependence on and retention of key personnel; and
- Availability of additional capital on acceptable terms, if at all.

Apligraf(R) is a registered trademark of Novartis.

Our ultimate success is dependent upon sale of products, research and development funding under licensing agreements, our ability to raise capital and interest income on invested capital. However, our funding requirements may change depending upon numerous factors, including:

- Delays in obtaining regulatory approvals of products in different countries, if needed, and subsequent timing of product launches;
- Delays in commercial acceptance and reimbursement when product launches occur;
- Changes in the progress of research and development programs; and
- Changes in the resources devoted to outside research collaborations or projects, self-funded projects, proprietary manufacturing methods and advanced technologies.

While we believe that future capital comprised of product sales, research and development support payments and debt and equity financings will be sufficient to fund future operations into 2001, there can be no assurance that these or any additional funds will be available when required on acceptable terms. Refer to "Common Stock" note for financing subsequent to year-end.

Summary of Significant Accounting Policies

Principles of Consolidation and Use of Estimates

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany activity has been eliminated. Certain reclassifications have been made for consistent presentation. These reclassifications have no impact on financial position or results of operations. We prepare our financial statements under generally accepted accounting principles that require us to make estimates and assumptions that affect amounts reported and the related disclosures. Actual results could differ from those estimates.

Revenue Recognition

Research and development support revenue under the collaborative agreement with Novartis is recognized as related expenses are incurred or contractual obligations are met and is not refundable. Revenue from Apligraf sales is recognized upon shipment or, in certain cases, after fulfillment of firm purchase orders in accordance with the Manufacturing and Supply Agreement with Novartis and when risk of ownership passes to the buyer and we have no performance obligations. Other product revenues are recognized upon shipment. Royalty revenue is recorded as earned. Grant revenue is recognized to the extent of allowable costs incurred. Deferred revenue arises from the difference between cash received and revenue recognized in accordance with these policies. See note "Accounting Pronouncements."

Research and Development

All research and development costs aimed at the development of new products are expensed as incurred. In addition to research and development, this cost category includes expenses of our production and related operating support departments, excluding cost of product sales commencing in 1999, our first year of meaningful commercial product sales. Prior to 1999, commercial sales were not significant and the full cost of low volume production was included in this cost category.

Patents

As a result of our research and development programs, we have a proprietary portfolio of patent rights and patent applications for a number of patents in the US and abroad. Such patent rights are of significant importance to protect our products and processes. For financial reporting purposes, all costs in connection with patent rights and patent applications have been expensed as incurred.

Income Taxes

Research and development and other tax credits are recognized for financial reporting purposes when they are realized. Deferred taxes are determined based on the difference between the financial reporting and the tax bases of assets and liabilities using enacted income tax rates in effect in the years in which the differences are expected to reverse. However, the realizability of these deferred tax assets is not assured as it depends upon future taxable income. Accordingly, we have recorded a 100% valuation allowance against these assets. Tax credits will be recorded as a reduction in income taxes when utilized.

Net Loss Per Common Share

Net loss per common share (basic and diluted) is based on the weighted average number of common shares outstanding during each period. Potentially dilutive securities at December 31, 1999 include: stock options outstanding to purchase 7,449,874 common shares; warrants to purchase 950,000 common shares; Series C preferred stock convertible into 213,638 common shares; and debt convertible into 1,957,384 common shares; however, such securities have not been included in the net loss per common share calculation because their effect would be antidilutive. For 1997, the net loss per common share (basic and diluted) and weighted average number of common shares outstanding were adjusted for a one-for-four stock split accounted for as a stock dividend distributed on April 29, 1998. After accounting for the one-for-four stock split, the 1997 net loss per common share (basic and diluted) decreased to $.70 per share as compared to $.87 per share.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and money market funds that are convertible into a known amount of cash and carry an insignificant risk of change in value. These investments are highly liquid and have original maturities of less than three months.

Inventory

Inventory is stated at the lower of cost or market, cost being standard cost, which approximates the first-in, first-out method of accounting.

Property and Equipment

Equipment, furniture and fixtures, office equipment and leasehold improvements are stated at cost. Depreciation is provided using the straight-line method over three to ten years. Leasehold improvements are being amortized using the straight-line method over the term of the lease. Construction in progress represents costs incurred to date in connection with facility expansion activities and are capitalized until such facilities become operational. These costs are then amortized using the straight-line method over the remaining lease term. Interest cost incurred during the period of construction in progress relating to expansion of our main facility is capitalized. The interest cost capitalized for the period ended December 31, 1999 was $150,000. No interest was capitalized in 1998 or 1997.

Maintenance and repairs are charged to expense as incurred and betterments are capitalized. Upon retirement or sale, the cost of assets disposed of and their related accumulated depreciation are removed from the accounts. Any resulting gain or loss is credited or charged to operations.

Long-Lived Assets

Our policy regarding long-lived assets is to evaluate the recoverability or usefulness of these assets when the facts and circumstances suggest that these assets may be impaired. This analysis relies on a number of factors, including changes in strategic direction or market emphasis, business plans, regulatory developments, economic and budget projections, and operating results. The test of recoverability or usefulness is a comparison of the asset value to its expected cumulative net operating cash flow or the assets usefulness in research and development programs or operations over the remaining life of the asset. Any write-downs would be treated as permanent reductions in the carrying amount of the asset and an operating loss would be recognized.

Stock-Based Compensation

Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," allows us to continue to account for stock-based compensation arrangements under the provisions of Accounting Principles Board No. 25, "Accounting for Stock Issued to Employees," and disclose in a footnote the pro forma effects to net loss and net loss per share assuming the fair value accounting method of SFAS 123 was adopted. Accordingly, no compensation cost has been recognized in income from stock-based employee awards. Compensation expense for stock awards granted to non-employees is determined by assessing the fair value of the options granted (using an option-pricing model).

Accounting Pronouncements

In June of 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. We will adopt SFAS No. 133 as required by SFAS No. 137, "Deferral of the Effective Date of SFAS No. 133" in 2001. To date, we have not utilized derivative instruments or hedging activities and, therefore, the adoption of SFAS No. 133 is not expected to have a material impact on our financial position or results of operations.

SEC Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" (SAB 101), was issued December 1999 and summarizes certain of the Staff's views in applying generally accepted accounting principles to revenue recognition in financial statements. The application of the guidance in SAB 101 will be required by the second quarter of 2000. The effects of applying this guidance, if any, will be reported as a cumulative effect adjustment resulting from a change in accounting principle. Our evaluation of SAB 101 is not yet complete.

Investments

The investments held are classified as available-for-sale and are carried at cost plus accrued interest, which approximates fair market value and, accordingly, there was no adjustment to stockholders' equity. We use a specific identification cost method to determine the gross realized gains and losses on the sale of our securities. We also classify investments in accordance with their intended use. At December 31, 1999, the intended use of all investments is to fund working capital and plant expansion in the coming year. We invest excess cash in securities that have an A or A1 rating or better with a maximum maturity of two years.

The aggregate cost and fair market value of investments are as follows (in thousands):

	December 31, 1998		December 31, 1999	
Maturity	Amortized Cost	Market Value	Amortized Cost	Market Value
Less than one year:				
US Government and Agency bonds	$ 1,034	$ 1,036	$ 2,082	$ 2,098
Corporate and other debt securities	5,019	5,019	503	503
Certificates of deposit	693	693	1,099	1,094
Greater than one year:				
US Government and Agency bonds	3,106	3,110	1,005	972
Corporate and other debt securities	2,937	2,957	2,023	2,013
Total Investments	$12,789	$12,815	$ 6,712	$ 6,680

Inventory

Inventory, at market value, consisted of the following (in thousands):

	December 31, 1998	December 31, 1999
Raw Materials	$300	$348
Work in Process	430	558
	$730	$906

Receivable from Related Party

Receivable from related party consisted of amounts due on product sales to Novartis and funding of certain programs by Novartis.

Property and Equipment

Property and equipment consisted of the following (in thousands):

	Estimated Useful Life (years)	December 31, 1998	1999
Equipment	3-10	$10,235	11,471
Furniture, fixtures and office equipment	3-5	1,954	2,042
Leasehold improvements	Lease term	3,822	4,277
Construction-in-progress		933	5,021
		16,944	22,811
Less accumulated depreciation		(9,339)	(11,080)
		$7,605	$11,731

Construction-in-progress will begin to depreciate when it is put into service.

Accrued Expenses

Accrued expenses consisted of the following (in thousands):

	December 31, 1998	1999
Compensation and employee benefits	$ 1,121	$ 1,402
Professional services	535	825
Accrued interest	-	361
Other	779	850
	$ 2,435	$ 3,438

Term Loan Agreement

In November of 1999, we entered into a $5,000,000 term loan agreement with a commercial bank to finance the purchase of certain equipment, leasehold improvements and other items. Borrowings under the term loan are collateralized by a security interest in the items financed. The agreement provides repayment of the principal amount of the loan in 12 equal quarterly installments commencing December 29, 2000, with final payment due on September 30, 2003. The loan bears interest at a fluctuating rate per annum that is equal to the prime rate in effect from time to time, or we may elect that all or any portion of any term loan be made as a LIBOR loan with an interest period of one month, two months, three months or six months with the interest rate being equal to LIBOR plus an applicable margin (175 to 225 basis points). We are required to comply with certain covenants relating to our outstanding term loans, involving limitations on future indebtedness, dividends and investments, and to maintain certain financial covenants pertaining to liquidity, capital base, and debt service coverage (or, alternatively, maintaining a minimum unencumbered cash balance). Because we exercised our option to redeem all outstanding shares of Series C convertible preferred stock for cash subsequent to year end, we did not maintain compliance with the liquidity covenant as of December 31, 1999. The bank granted a waiver from this covenant. After raising additional capital subsequent to year end, we are now in compliance with all covenants. At December 31, 1999, we borrowed approximately $4,728,000 against this term loan to finance certain research, manufacturing and office equipment and leasehold improvements. The weighted average interest rate paid during this period was 8.05%. This borrowing is collateralized by a security interest in the fixed assets financed.

The current portion of this term loan is $394,000 at December 31, 1999 and is included in other current liabilities. Long-term future minimum term loan payments at December 31, 1999 are as follows (in thousands):

2001	$1,576
2002	1,576
2003	1,182

	$4,334
	======

Commitments

Lease Obligations

We occupy our main offices and manufacturing premises under a facility lease for 79,500 square feet of space in Canton, Massachusetts at an annual average base rent of approximately $790,000, plus operating expenses, that expires on September 30, 2004. This lease has three options to extend the term for an additional five years per option. Taxes, insurance and operating expenses are our responsibility under the terms of the lease. In May 1999, we entered into another facility lease for approximately 62,500 square feet of additional office and warehouse space in Canton, Massachusetts at an annual average base rent of approximately $421,875, plus operating expenses, that expires on December 5, 2004. This lease has three options to extend the term for an additional five years per option. In total, we currently lease approximately 142,000 square feet of space. We also had a facility lease for warehouse and office space that expired on December 31, 1999. In January 1999, we entered into a noncancelable operating lease for certain office equipment.

Future minimum lease payments are as follows (in thousands):

2000	$1,077
2001	1,240
2002	1,260
2003	1,245
2004	1,019
Thereafter	-
	-
	$5,841

Rent of approximately $491,000, $562,000 and $800,000 was charged to expense during the years ended December 31, 1997, 1998 and 1999, respectively.

Construction-in-Progress

At December 31, 1999, we had $5,021,000 in construction in progress relating primarily to expansion of our facility. Additionally, we have committed approximately $1.0 million for further build-out.

Series C Preferred Stock Commitment

At December 31, 1999, we had approximately 62 shares of Series C convertible preferred stock outstanding. In the event that any Series C preferred stock are outstanding on the mandatory conversion date of March 26, 2000, we have the option of redeeming any such outstanding Series C preferred stock by: (1) paying cash equal to the product of the number of Series C preferred stock outstanding multiplied by the stated value of $100,000 per share; (2) issuing common stock equal to 1.15 of the stated value divided by the average of the closing bid prices for the 20 consecutive trading days prior to the mandatory conversion date; or (3) any combination of these methods. During March 2000, we redeemed in cash all outstanding shares of Series C convertible preferred stock for approximately $6,180,000.

Purchase of Technology

In April 1999, we purchased specific equipment and intellectual property, consisting of patents and laboratory documentation, from Baxter Healthcare Corporation relating to the research and development for the design and manufacturing of key mechanical components of an extracorporeal liver assist device. The purchase price consists of the reissuance of 50,000 shares of common stock held in treasury. In May 1999, we filed a registration statement registering all 50,000 of these shares, 25,000 of which are subject to a one-year lock-up agreement. Additionally, we may be required to make a future cash payment that is contingent on the average closing price of our common stock over the twenty consecutive trading days immediately prior to the earlier of the date we receive FDA approval of an Investigational Device Exemption for a liver assist device or January 1, 2003. We will have no obligation to make such future cash payment if at any time during the period between April 2000 and the date such cash payment is otherwise payable by us, the value of the shares of common stock issued to Baxter is equal to or greater than $1,000,000. If this contingent payment is required in the future, such cash payment will reduce the value of the 50,000 shares issued. Total consideration is $1,000,000, of which $900,000 was recorded as purchase of incomplete technology and the remaining $100,000 capitalized to property and equipment. The purchase was made to strengthen our resources to our liver assist device program. The charge to purchase of incomplete technology was due to the early stage of the technology which has not provided proof of principle. Additionally, the time and cost to prove this principle is not known. Our liver assist device program is expected to be a long-term endeavor that will be evaluated periodically to determine future spending levels. It is expected that development of a liver assist device will cost millions of dollars and take 8 to 10 years before we could develop a product which might be approved for commercial sale. We do not currently have the resources to fully develop such a product. It is our intent that once proof of principle is established, we will seek funding or partnership for the project to advance our long term research and development efforts in the field of liver assist device.

Grants

In 1999, we received notice of grants to support two research projects: (1) $2,000,000 grant under the Advanced Technology Program of the National Institute for Standards and Technology ("NIST") to help support our development of an effective liver assist device prototype, which we expect to receive over the next two years commencing in December 1999; and (2) $100,000 grant under the Small Business Innovation Research Program of the National Institutes of Health to support development of our vascular graft, which we have received $50,000 in 1999 and expect to receive the next $50,000 over the next three months. Both of these grants require that the federal government can access for its own purposes technology developed using the funding. A product developed based on the funding from the NIST grant must be manufactured substantially in the United States. In addition, we are subject to regular audit and reporting requirements.

Income Taxes

At December 31, 1999, we had federal and state net operating loss carryforwards of approximately $106,211,000 and $56,274,000, respectively, of which $5,961,000 relate to disqualifying dispositions of qualified incentive stock options and exercise of nonqualified stock options. The tax benefit of $2,384,000 related to the stock options will be credited to equity when realized. At December 31, 1999, we had federal and state tax credit carryforwards of approximately $3,305,000 and $1,476,000, respectively. The federal and state net operating loss carryforwards expire beginning in 2000. The federal and state research and development tax credits expire beginning in 2001 and 2006, respectively.

The approximate tax effect of each type of temporary difference and carryforward is reflected in the following table. The effective tax rate is expected to be 40% combined federal and state (in thousands):

	December 31, 1998	December 31, 1999
Deferred tax assets and (liabilities):		
Net operating loss carryforwards	$37,062	$39,507
Research and development credits and other credits	3,774	4,782
Depreciation	(349)	8,669
Other	2,455	2,813
Net deferred tax assets before valuation allowance	42,942	55,771
Valuation allowance	(42,942)	(55,771)
Net deferred assets after valuation allowance	$ 0	$ 0

These losses and tax credits are available to reduce federal and state taxable income and income taxes, respectively, in future years, if any. The realizability of deferred tax assets is not assured as it depends upon future taxable income. Accordingly, we have recorded a 100% valuation allowance against these assets. We are required to recognize all or a portion of net deferred tax assets, with corresponding increases to net income, when we believe, given the weight of all available evidence, that it is more likely than not that all or a portion of the benefits of net operating loss carryforwards and other credits will be realized. However, there can be no assurance that we will ever realize any future cash flows or benefits from these losses and tax credits. Ownership changes may result in future limitations on the utilization of net operating losses and research and development tax credit carryforwards.

Collaborative and Other Agreements

In January 1996, we entered into an agreement with Novartis Pharma AG granting them exclusive global marketing rights to Apligraf. Under the agreement, Novartis is responsible for Apligraf sales and marketing costs worldwide, as well as all clinical trials, registrations and patent costs outside the US. The agreement provides us with up to $40,000,000 in equity investments and nonrefundable research, development and milestone support payments. The equity investments made were determined using quoted market prices over a 30-day period or a premium to market, as in accordance with the contract terms. The nonrefundable research, development and milestone support payments were recognized as "Research and development support from related party" revenue in the year received. All payments received relate to research and development efforts that had been completed and no future obligations exist relating to these payments. The table below summarizes all payments received and the year they were recorded:

	1996	1997	1998	1999
Equity investments	$ 5,000,000	$ -	$ 6,000,000	$ -
Research and development support from related party	6,500,000	2,500,000	6,750,000	-
Total	$11,500,000	$ 2,500,000	$12,750,000	$ -

The remaining payments are based upon achievement of specified events. During March 2000, we received $5,000,000 from Novartis, which represents a milestone support payment received in advance of achievement of the milestone. Under the agreement, we supply Novartis' global requirements for Apligraf and receive revenue consisting of a per unit manufacturing payment and royalty on net product sales.

During the first quarter of 1999, Novartis agreed to provide funding for certain programs to be conducted by Organogenesis. We have recorded $572,000 for the period ended December 31, 1999 relating to the initiation of these programs, which is included in "Other income".

In 1994, we signed a license agreement with Toyobo Ltd. granting Toyobo a license to manufacture and market TESTSKIN(TM) in Japan in exchange for royalty payments. Additionally, Toyobo may, but is not obligated to, purchase collagen and other products from us. Revenues under this arrangement are included in other income. This agreement is coterminous with certain patents.

Research Agreements

We have entered into various collaborative research agreements that are generally funded over a one or two-year period. Each agreement is reviewed at least annually and the amounts to be funded for the next period are then determined. Either party may cancel the agreement upon advance written notice. Total payments under these agreements were $571,000, $648,000 and $662,000 for 1997, 1998 and 1999, respectively. All our research agreements are early stage today, but have the potential to develop into more material relationships in the future.

License Agreement

Certain of our technologies are licensed under an exclusive patent license agreement with the Massachusetts Institute of Technology. The agreement with MIT covers certain US patents and corresponding patents in European and Far East countries. Pursuant to the MIT agreement, we have been granted an exclusive, worldwide license to make, use and sell the products covered by the patents and to practice the procedures covered by the patents. The MIT agreement requires us to pay to MIT a royalty on the cumulative net sales of licensed products ranging from 3% to 4.5% of annual sales.

Convertible Debt

On March 31, 1999, we completed a financing of $20,000,000 through the private placement of five-year convertible debentures and 400,000 warrants to purchase common stock. The debentures are convertible at a fixed price of $14.50 per share at any time on or after March 30, 2000. Interest on the debentures accrues at 7% annually, payable in cash, common stock (at the average trading price for the twenty trading days preceding the due date) or any combination thereof, at our option, semi-annually on September 30 and March 31 or on the date any of the principal outstanding under the notes has been converted into common stock. At our option, at any time on or after March 30, 2002, the debentures may be prepaid by conversion of the principal into common stock at the conversion price of $14.50, cash or any combination thereof and payment of any accrued interest as described above, provided that the average per share market value for the twenty consecutive trading days immediately preceding the date of prepayment equals or exceeds $38.67 per share. The notes mature on March 29, 2004 and are payable in cash. The warrants grant the right to purchase one share of common stock at the exercise price of $21.75 for each $50.00 in face value of the convertible notes at any time before March 30, 2004. Approximately $2,318,000 of the $20,000,000 financing is allocated to the estimated fair value of the warrants and is included in additional paid in capital. This amount is amortized as a non-cash charge to interest expense over the life of the debentures. Debt issuance costs are included in other assets and are amortized to interest expense over the life of the debentures. In May 1999, we filed a registration statement for 2,096,333 shares of Common Stock issuable as follows: (1) 1,646,333 shares of Common Stock which may become issuable by reason of the conversion of the convertible debt, and accrued interest, (2) 400,000 shares which may become issuable upon the exercise of the warrants issued in the financing, and (3) 50,000 shares issued in connection with an asset purchase transaction. All shares have been reserved for issuance. In May 1999, the Securities and Exchange Commission declared this registration statement effective.

Stockholders' Equity

Preferred Stock

We have authorized 1,000,000 shares of preferred stock at December 31, 1999, comprised of the following designations:

- 250,000 shares Series A convertible preferred stock;
- 50,000 shares Series B Junior participating preferred stock;
- 200 shares Series C convertible preferred stock included in current liabilitites; and
- 699,800 shares authorized and unissued.

The Series A convertible preferred stock that was previously issued was subsequently converted into 312,500 shares of common stock in October 1995. No shares of Series A or Series B preferred stock were issued and outstanding as of December 31, 1997, 1998 and 1999.

In March 1998, we completed a placement of 200 shares of Series C convertible preferred stock and warrant financing with two institutional investors at a price of $100,000 per share. Proceeds from the offering, net of placement agent fees and expenses, were approximately $19,117,000. The Series C preferred stock pay no dividends, have no voting rights, and are convertible into common stock on a scheduled basis over two years based on market price at time of conversion (up to $28.80 per share). We may call for conversion of all or part of the shares of Series C preferred stock under certain conditions based on continued improvement in the price of our common stock. Conversions by the investors are subject to certain limits; no limits exist for conversions on redemption or upon a major transaction. Mandatory conversion is March 26, 2000, at which time we have the option to redeem any outstanding Series C preferred shares in cash or by issuing common stock. In addition, the investors received three-year warrants to purchase an aggregate of 200,000 shares of common stock at $31.20 per share. The warrants may be exercised at any time prior to April 2001. In July 1998, the investors exercised their right to receive additional warrants to purchase 150,000 shares of common stock at $17.45 per share with an expiration date of March 26, 2001. We also issued a warrant to purchase an aggregate of 50,000 shares of common stock at $28.80 per share to the placement agent that expires March 25, 2001. The total fair value of all warrants was estimated to be approximately $2,509,000 and is included in additional paid-in capital. No further warrants may be issued under the Series C preferred stock placement.

In April 1998, we filed a registration statement for 1,800,000 shares of common stock, the maximum number of shares that may be acquired relating to this transaction; except for mandatory conversion where the common share limit does not apply. All shares have been reserved for issuance. The SEC declared this registration statement effective in May 1998.

In May, September and November 1998, an aggregate of $13,800,000 face amount of the Series C preferred stock was converted into common stock resulting in the issuance of approximately 1,136,000 shares of common stock. These conversions are non-cash transactions. During March 2000, we redeemed in cash all outstanding shares of Series C convertible preferred stock for approximately $6,180,000.

Common Stock

We have authorized 80,000,000 shares of common stock, of which there were 30,479,719 and 30,689,019 shares issued and outstanding as of December 31, 1998 and 1999, respectively.

The following one-for-four stock splits accounted for as stock dividends were declared by the Board of Directors during the past three years:

Stock Dividend	Record Date	Payable Date	Common Shares Issued
25%	April 22, 1998	April 29, 1998	5,826,000
25%	November 21, 1997	November 28, 1997	4,618,000
25%	April 25, 1997	May 2, 1997	3,596,000

All related share and per share data in the consolidated financial statements reflect all stock dividends for all periods presented, except for the Statements of Changes in Stockholders' Equity.

We received $6,000,000 from Novartis in 1998 relating to milestone equity investments for approximately 240,000 shares of common stock. As a result of these equity investments and a prior equity investment of $5,000,000 for approximately 418,000 shares made in January 1996, Novartis holds approximately 2.1% of outstanding shares as of December 31, 1999. See notes on "Receivable from Related Party" and "Collaborative and Other Agreements".

In July 1995, we completed a public offering of 230,000 units, at a unit price of $66.25, resulting in net proceeds of approximately $14,774,000. Each unit in the offering consisted of five shares of common stock and one common stock purchase warrant to purchase one share of common stock. On July 21, 1997, we gave notice of redemption with respect to all outstanding common stock purchase warrants issued. All common stock purchase warrants were exercised during 1997 for 357,000 shares of common stock, resulting in proceeds of approximately $4,571,000.

Warrants Issued to a Consultant

In October 1999, we executed an agreement granting warrants to purchase 100,000 shares of common stock at an exercise price of $10.00 per share to a consultant. These warrants were fully vested at December 31, 1999, with an expiration of five years. We recorded approximately $411,000 of expense as of December 31, 1999 relating to the fair value of these warrants (using an option-pricing model).

Subsequent Common Stock Issuance

On February 14, 2000, the Securities and Exchange Commission declared effective a shelf registration for the placement of up to 3,000,000 shares of common stock with an aggregate offering price not to exceed $50,000,000. In February 2000, we completed a private placement of 788,925 shares of common stock at $14.00 per share under this shelf registration yielding net proceeds of approximately $10,800,000. Gruntal & Co. acted in an agency capacity for this placement. In March 2000, we completed a private placement of 300,000 shares of common stock at $17.25 per share under this shelf registration yielding proceeds of approximately $5,175,000. Additionally, from January 1 through March 29, 2000, we received approximately $10,072,000 from the exercise of employee stock options.

Treasury Stock

In September 1998, the Board of Directors authorized a common stock repurchase program. Repurchases are allowed through open-market transactions for up to 500,000 shares that will provide us with treasury shares for general corporate purposes. For the period ended December 31, 1998 and 1999, we repurchased 40,000 and 95,000 shares of common stock for an aggregate purchase price of approximately $391,000 and $951,000, respectively. In April 1999, we reissued 50,000 shares of common stock held in treasury related to the purchase of technology (see "Purchase of Technology" note). We had in treasury 40,000 shares of common stock at a cost of $391,000 and 85,000 shares of common stock at a cost of $804,000, at December 31, 1998 and December 31, 1999, respectively. The stock repurchase program may be discontinued at any time.

Stockholder Rights Plan

In August 1995, the Board of Directors adopted a Stockholder Rights Plan and declared a dividend of one right for each outstanding share of common stock to stockholders of record on September 1, 1995. After adjusting for two one-for-four stock dividends distributed during 1997 and one one-for-four stock dividend distributed during 1998, there is approximately .51 of a right for each outstanding share of common stock. Each right only becomes exercisable and transferable apart from the common stock at the earlier of: (1) ten days after a person or group acquires beneficial ownership of 15% or more of outstanding common stock; or (2) ten business days following an announcement of a tender or exchange offer of 30% or more of outstanding stock.

Initially, each right, upon becoming exercisable, would entitle the holder to purchase one-thousandth of a share of Series B Junior participating preferred stock at an exercise price of $85, subject to adjustment. If a person or group acquires beneficial ownership of 15% or more of the outstanding shares of common stock, then each holder of a right (other than rights held by the acquiring person or group) would have the right to receive that number of shares of common stock which equals the exercise price of the right divided by one-half of the current market price of the common stock.

The rights may be redeemed for $0.01 per right at any time until the tenth day following the stock acquisition date. The rights will expire on September 1, 2005.

Stock-Based Compensation

At December 31, 1999, we had five stock-based compensation plans (collectively, Stock Option Plans), as described below. Consistent with the provisions prescribed by SFAS 123, the following are the pro forma net loss and net loss per common share (basic and diluted) for the years ended December 31, 1997, 1998 and 1999, respectively, had compensation cost for the Stock Option Plans been determined based on the fair value at the grant date for grants made in 1997, 1998 and 1999 (in thousands, except share data):

		1997		1998		1999
	As Reported	Pro Forma	As Reported	Pro Forma	As Reported	Pro Forma
Net loss	$(19,807)	$(18,686)	$(14,031)	$(17,985)	$(28,350)	$(33,335)
Net loss per common share (basic and diluted)	$ (0.70)	$ (0.66)	$ (0.48)	$ (0.61)	$ (0.93)	$ (1.09)

The effects on 1997, 1998 and 1999 pro forma net loss and net loss per common share (basic and diluted) of expensing the estimated fair value of stock options may not be representative of the effects on reporting pro forma results for future years.

The weighted average fair value of options granted under the Stock Option Plans was estimated using the Black-Scholes option-pricing model. The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option-pricing models require the input of highly subjective assumptions, including expected stock price volatility. Because our employee stock options have characteristics significantly different from those of traded options and changes in the subjective input assumptions may materially affect the fair value estimate, in our opinion, the existing models do not necessarily provide a reliable single measure of the fair value of employee stock options.

The assumptions used to calculate the weighted average fair value of options granted during 1997, 1998 and 1999 are as follows:

	1997	1998	1999
Assumed life for options issued to employees (years)	5.0	5.0	5.0
Assumed life for options issued to directors and officers (years)	7.0	7.0	7.0
Risk-free interest rate	6.3%	5.3%	5.8%
Volatility	61.0%	65.0%	68.0%
Dividend yield	-	-	-
Weighted average fair value per common share of options granted during the year	$7.85	$14.48	$5.93

In May 1997, the Board of Directors voted to extend the term of an option granted to an officer in 1987 for an additional five years. The option allows for the purchase of 732,423 shares of common stock at an exercise price of $3.072. The extension of this option requires a new measurement date for valuing the option, resulting in a non-cash compensation charge of $5,555,000 recorded in the second quarter of 1997. The option is fully exercisable and the common stock has been reserved for issuance.

The Stock Option Plans

In March 1999, the Board of Directors adopted the 1999 Nonqualified Stock Option Plan (the "1999 Plan") providing for the issuance of up to 1,000,000 shares of common stock subject to adjustment for any dividend, stock split or other relevant changes in capitalization. The Board of Directors' primary reason for adopting the 1999 Plan was to enhance our ability to retain and motivate key qualified persons who are officers, directors, and consultants. Under the 1999 Plan, the Compensation Committee of the Board of Directors may grant non-qualified stock options to officers, directors, and consultants. The Committee selects the individuals to whom options are granted and determines: (1) the number of shares of common stock covered by the option; (2) when the option becomes exercisable; (3) the duration of the option, which may not exceed ten years; and (4) the vesting period, which, for officers, will generally occur ratably over a five-year period beginning one year from the date of grant. All stock options held under this 1999 Plan fully vest upon a change in control, as defined in the plan.

In May 1995, a stock option plan was approved by shareholders providing for the issuance of up to 5,000,000 shares of common stock options to enable us to attract and retain key employees and consultants. Under the 1995 Plan, we may grant incentive and non-qualified stock options to officers, employees, consultants and advisors. The 1995 Plan, which took effect upon the expiration of the 1986 Stock Option Plan in August 1996, is administered by a committee of the Board of Directors. This committee selects the individuals to whom options are granted and determines: (1) the type of option to be granted; (2) the number of shares of common stock covered by the option; (3) when the option becomes exercisable; and (4) the duration of the option which, in the case of incentive stock options, may not exceed ten years. Vesting generally occurs ratably over a five-year period beginning one year from the date of grant. No one person may be issued options to purchase more than 500,000 shares of common stock in any one calendar year. Stock options granted under the 1995 Plan may not be granted at an exercise price less than 100% of the fair market value of the common stock on the date of grant (or 110% of fair market value in the case of incentive stock options granted to employees holding 10% or more of voting stock). The aggregate fair market value (determined at the time of grant) of shares issuable pursuant to incentive stock options which first become exercisable in any calendar year by an employee may not exceed $100,000.

Our 1986 Stock Option Plan provided for the issuance of an aggregate of 4,882,812 shares of common stock for the granting of incentive and non-qualified stock. The 1986 Plan was also administered by a committee of the Board of Directors and had substantially the same terms and conditions as described under the 1995 Plan. In August 1996, the 1986 Plan expired and no further grants were made. All options outstanding on the expiration date remain in effect.

In 1994, a stock option plan for non-employee directors was approved by shareholders. Under the 1994 Director Plan, non-qualified stock options to purchase up to 488,281 shares of common stock may be granted to non-employee directors. The 1994 Director Plan provides that the option price per share be at fair market value and vest ratably over a five-year period beginning one year from the date of grant, with a duration not to exceed ten years.

The 1991 Director Stock Option Plan provided for the granting of options to purchase 244,141 shares of common stock by non-employee directors and terminated upon the adoption of the 1994 Director Plan. The options were granted at fair market value and were immediately exercisable, subject to repurchase, at the option price, in the event the optionee ceased to be a director. This repurchase right terminates and the shares vest ratably over a five-year period beginning one year from the date of grant. All options outstanding on the termination date remain in effect.

In 1987, we granted to an officer an option to purchase 732,423 shares of common stock at an exercise price of $3.072 per share. The shares have been reserved for issuance and are fully vested and exercisable.

The following table presents the combined activity of all Stock Option Plans for the years ended December 31, 1997, 1998 and 1999:

	1997		1998		1999	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of period	5,019,005	$5.56	5,320,206	$6.83	6,006,138	$9.10
Granted	1,041,795	12.47	954,889	22.00	1,721,400	9.20
Exercised	(467,666)	5.60	(148,413)	6.39	(110,262)	6.59
Cancelled	(272,928)	7.51	(120,544)	12.56	(167,402)	12.38
Outstanding at end of period	5,320,206	6.83	6,006,138	9.10	7,449,874	9.09
Exercisable at year end	2,729,631	4.47	3,297,005	5.18	3,987,847	6.39
Shares available for granting of options at end of period	1,234,883		371,105		1,832,702	

The following table presents weighted average price and life information about significant option groups outstanding at December 31, 1999 for the Stock Option Plans:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 2.457 - 3.738	1,674,588	2.8	$ 3.15	1,674,587	$ 3.15
3.891 - 6.144	803,571	3.9	5.05	728,861	5.00
6.604 - 9.920	2,523,675	7.3	7.55	997,389	7.71
10.00 - 14.84	1,632,889	8.0	12.17	411,535	11.53
15.06 - 21.28	152,587	8.2	19.25	41,401	19.54
24.00 - 31.00	662,564	8.2	24.91	134,074	24.91
	7,449,874	6.2	9.09	3,987,847	6.39

The 1991 Employee Stock Purchase Plan

Under the 1991 Employee Stock Purchase Plan, a total of 366,211 shares of common stock are reserved for issuance (up to 30,000 shares may be issued in any one year). The purchase plan allows eligible employees the option to purchase common stock during two six-month periods of each year at 85% of the lower of the fair market value of the shares at the time the option is granted or is exercised. The term of this plan ends December 31, 2004. During 1997, 1998 and 1999, we issued a total of 6,507, 5,046 and 10,089 shares of common stock, respectively, under this purchase plan. Remaining shares available under this purchase plan were 307,273 as of December 31, 1999.

Employee Savings Plan

We have a 401(k) savings plan covering full-time employees who are eligible to participate upon hire. Under this savings plan, we may match employee contributions at management's discretion. Contributions made under the savings plan were approximately $53,000, $62,000 and $80,000 as of December 31, 1997, 1998 and 1999, respectively.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this item is contained in our Proxy Statement for the 2000 Annual Meeting of Stockholders under the captions "Information About the Board of Directors", "Information About Executive Officers " and "ELECTION OF DIRECTORS" and is incorporated herein by reference.

Item 11. EXECUTIVE COMPENSATION

The information required by this item is contained under the caption "Information About Executive Officers" in our 2000 Proxy Statement and is incorporated herein by reference.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this item is contained in our 2000 Proxy Statement under the captions, "Information About Principal Stockholders" and "Information About Executive Officers" and is incorporated herein by reference.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item is contained under the caption "Certain Transactions" in our 2000 Proxy Statement and is incorporated herein by reference.

PART IV

Item 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) 3. Exhibits

The exhibits filed as a part of this Annual Report on Form 10-K are listed in the Exhibit Index immediately preceding the exhibits. The Registrant has identified in the Exhibit Index each management contract and compensatory plan filed as an exhibit to this Form 10-K in response to Item 14(c) of Form 10-K.

(b) Reports on Form 8-K

None

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ORGANOGENESIS INC.

BY: /s/ PHILIP M. LAUGHLIN

Philip M. Laughlin
President and Chief Executive Officer

Date: March 29, 2000

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ PHILIP M. LAUGHLIN Philip M. Laughlin	President, Chief Executive Officer and Director (Principal executive officer)	March 29, 2000
/s/ ALBERT ERANI Albert Erani	Director and Chairman of the Board	March 29, 2000
/s/ RICHARD S. CRESSE Richard S. Cresse	Director	March 29, 2000
/s/ DAVID A. GARDNER David A. Gardner	Director	March 29, 2000
/s/ BERNARD A. MARDEN Bernard A. Marden	Director	March 29, 2000
/s/ BJORN R. OLSEN Bjorn R. Olsen	Director	March 29, 2000
/s/ MARGUERITE A. PIRET Marguerite A. Piret	Director	March 29, 2000
/s/ ANTON E. SCHRAFL Anton E. Schrafl	Director	March 29, 2000
/s/ DONNA ABELLI LOPOLITO Donna Abelli Lopolito	Vice President, Finance and Administration, Chief Financial Officer, Treasurer and Secretary (Principal Financial and Accounting Officer)	March 29, 2000